

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
JUNE 30, 2004 AND 2003**

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

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**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

**OFFICIALS
JUNE 30, 2004**

Name	Position	Term Expires	Insurance Coverage
Darrell E. Chiles	Trustee	12/31/04	\$ 10,000
Lynne Don Carlos	Trustee	12/31/06	10,000
Richard Kohler	Trustee	12/31/08	10,000
Duane Armstead	General Manager		10,000
Sharyl Newbury	City Clerk/Treasurer	Beginning 7/1/03	40,000

INDEPENDENT AUDITORS' REPORT

Greenfield Municipal Utilities
Water System
Greenfield, Iowa

We have audited the accompanying statements of net assets of the Water System, a department of Greenfield Municipal Utilities, a component unit of the City of Greenfield, Iowa, as of June 30, 2004 and 2003, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 1C, during the year ended June 30, 2004, Greenfield Municipal Utilities implemented a new financial statement reporting model as required by the provisions of GASB Statement No. 34 and No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*. The financial statements for 2003 have been restated accordingly.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water System, a department of Greenfield Municipal Utilities, as of June 30, 2004 and 2003, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2004 on our consideration of the Water System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information contained on Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for Schedules 2 which are marked "unaudited" and on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Greenfield Municipal Utilities has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements

O'DONNELL, FICENEC, WILLS & FERDIG, LLP

October 26, 2004

By _____
Certified Public Accountant

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

**STATEMENTS OF NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

ASSETS	2004	2003 Restated	Increase (Decrease)
CURRENT ASSETS:			
Cash and Equivalents	\$ -	\$ 38,988	\$ (38,988)
Investment in Certificates of Deposit	185,000	185,000	-
Accounts Receivable - Customers	45,919	44,030	1,889
Inventories - Materials and Supplies	27,634	29,655	(2,021)
Accrued Interest Receivable	888	1,060	(172)
Prepaid Expenses	<u>21,486</u>	<u>21,593</u>	<u>(107)</u>
Total Current Assets	280,927	320,326	(39,399)
 PROPERTY AND EQUIPMENT:			
Production and Treatment Plant	1,401,803	1,337,994	63,809
Transmission System	597,075	597,075	-
Distribution System	1,699,925	1,699,925	-
Vehicles, Tools and Equipment	<u>138,444</u>	<u>155,777</u>	<u>(17,333)</u>
Total Cost	3,837,247	3,790,771	46,476
Accumulated Depreciation	<u>(2,626,663)</u>	<u>(2,544,422)</u>	<u>(82,241)</u>
Cost Less Depreciation	1,210,584	1,246,349	(35,765)
Construction in Progress	<u>792,836</u>	<u>227,500</u>	<u>565,336</u>
Total Property and Equipment	2,003,420	1,473,849	529,571
	<u><u>\$ 2,284,347</u></u>	<u><u>\$ 1,794,175</u></u>	<u><u>\$ 490,172</u></u>

(Continued)

See Independent Auditors' Report and Notes to Financial Statements.

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

**STATEMENTS OF NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

LIABILITIES	2004	2003 Restated	Increase (Decrease)
CURRENT LIABILITIES:			
Deficit in Cash and Equivalents	\$ 39,470	\$ -	\$ 39,470
Accounts Payable - Vendors	9,547	13,138	(3,591)
Accounts Payable - Construction Vendor	79,580	123,310	(43,730)
Sales and Use Tax Payable	1,334	1,496	(162)
Accrued Liabilities -			
Salaries and Wages	6,201	3,577	2,624
Compensated Absences	18,786	17,555	1,231
Current Portion of Promissory Note Payable	20,000	-	20,000
Total Current Liabilities	174,918	159,076	15,842
NONCURRENT LIABILITIES:			
Promissory Note Payable	180,000	-	180,000
Total Noncurrent Liabilities	180,000	-	180,000
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,723,839	1,473,849	249,990
Unrestricted	205,590	161,250	44,340
Total Net Assets	1,929,429	1,635,099	294,330
	<u>\$ 2,284,347</u>	<u>\$ 1,794,175</u>	<u>\$ 490,172</u>

See Independent Auditors' Report and Notes to Financial Statements.

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	2004		2003 Restated		Increase
	Amount	Percent	Amount	Percent	(Decrease)
OPERATING REVENUE:					
Residential Sales	\$ 249,848	54.2	\$ 244,888	59.6	\$ 4,960
Commercial Sales	61,607	13.4	63,193	15.4	(1,586)
Industrial Sales	45,273	9.8	25,544	6.2	19,729
Sales to SIRWA	62,866	13.6	56,686	13.8	6,180
Sales to Fontenelle	16,348	3.5	-	-	16,348
Sales to City	10,792	2.3	5,642	1.4	5,150
Plant Hydrant Water Sales	872	0.2	2,481	0.6	(1,609)
Forfeited Discounts and Other	13,266	3.0	12,769	3.0	497
Total Operating Revenue	<u>460,872</u>	<u>100.0</u>	<u>411,203</u>	<u>100.0</u>	<u>49,669</u>
OPERATING EXPENSES:					
Plant Operations	147,489	32.0	141,659	34.4	5,830
Plant Maintenance	30,120	6.5	20,377	5.0	9,743
Distribution Operations	87,708	19.0	80,673	19.6	7,035
Distribution Maintenance	34,826	7.6	28,642	7.0	6,184
Accounting and Collecting	43,097	9.4	40,945	10.0	2,152
Administrative Expenses	74,763	16.2	77,132	18.8	(2,369)
Refunds and Rebates	2,658	0.6	655	0.3	2,003
Total Operating Expenses	<u>420,661</u>	<u>91.3</u>	<u>390,083</u>	<u>95.1</u>	<u>30,578</u>
Operating Income					
Before Depreciation	40,211	8.7	21,120	4.9	19,091
Depreciation	<u>101,331</u>	<u>22.0</u>	<u>105,200</u>	<u>25.6</u>	<u>(3,869)</u>
Operating Loss	<u>(61,120)</u>	<u>(13.3)</u>	<u>(84,080)</u>	<u>(20.7)</u>	<u>22,960</u>
NONOPERATING REVENUE:					
Contributions-in-Aid of Construction	132,047	28.7	-	-	132,047
Interest Income	5,327	1.2	8,984	2.2	(3,657)
Sale of Assets	15,300	3.3	-	-	15,300
Miscellaneous Income	2,776	0.6	720	0.2	2,056
Total Nonoperating Revenue	<u>155,450</u>	<u>33.8</u>	<u>9,704</u>	<u>2.4</u>	<u>145,746</u>
Income (Loss) Before Transfers	<u>94,330</u>	<u>20.5</u>	<u>(74,375)</u>	<u>(18.3)</u>	<u>168,705</u>
TRANSFERS IN:					
From Electric System	<u>200,000</u>		<u>100,000</u>		<u>100,000</u>
Changes in Net Assets	294,330		25,625		268,705
Total Net Assets, Beginning	1,635,099		1,609,474		25,625
Total Net Assets, Ending	<u>\$ 1,929,429</u>		<u>\$ 1,635,099</u>		<u>\$ 294,330</u>

See Independent Auditors' Report and Notes to Financial Statements.

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003 Restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers	\$ 458,983	\$ 401,916
Payments to Suppliers	(159,634)	(201,119)
Payments to Employees	(219,327)	(205,313)
Other Receipts	<u>2,776</u>	<u>9,875</u>
Net Cash from Operating Activities	82,798	5,359
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers from Electric	200,000	100,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds of Promissory Note Issued	200,000	-
Contribution-in-Aid Construction	132,047	-
Proceeds of Property Sold	15,300	-
Purchase or Construction of Capital Assets	<u>(674,632)</u>	<u>(117,969)</u>
Net Cash from Capital and Related Financing Activities	(327,285)	(117,969)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	<u>5,499</u>	<u>8,763</u>
Net Decrease in Cash and Equivalents	(38,988)	(3,847)
Cash and Equivalents, Beginning of Year	38,988	42,835
Cash and Equivalents, End of Year	<u>\$ -</u>	<u>\$ 38,988</u>
RECONCILIATION OF OPERATING EARNINGS (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:		
Loss from Operations	\$ (61,120)	\$ (84,080)
Adjustments to Reconcile Loss from Operations to Net Cash		
Provided by Operating Activities -		
Depreciation Non-cash Expense	101,331	105,200
Miscellaneous Revenue Received	2,776	722
Change in Operating Assets and Liabilities -		
Deficit in Cash and Equivalents	39,470	-
Accounts Receivable (Increase) Decrease	(1,889)	(134)
Inventories (Increase) Decrease	2,021	(1,506)
Prepaid Expenses (Increase) Decrease	107	(8,743)
Accounts Payable Increase (Decrease)	(3,591)	(5,933)
Sales Tax Payable Increase (Decrease)	(162)	81
Other Accrued Liabilities Increase (Decrease)	<u>3,855</u>	<u>(248)</u>
Total Adjustments	143,918	89,439
Net Cash from Operating Activities	<u>\$ 82,798</u>	<u>\$ 5,359</u>

See Independent Auditors' Report and Notes to Financial Statements.

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General -

The City of Greenfield owns an electric light and power system (electric), waterworks (water) and sewage treatment system. Many years ago voters approved Greenfield Municipal Utilities (GMU) be organized to operate and manage only the electric and water systems. GMU is governed by a three-member board of trustees appointed by the City Council. The board of trustees exercises all oversight responsibility.

Greenfield Municipal Utilities provides electric and water service to a diversified base of residential, commercial, and industrial customers, primarily within the boundaries of the City. State statutes vest authority to establish rates in the Board of Trustees and provide, among other things, that books of account be kept for each utility system and for the equitable allocation of joint expenses.

These financial statements are prepared in accordance with accounting principal generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principals (GAAP) for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (FASB). As allowed by GASB, Greenfield Municipal Utilities may follow the statements and interpretations of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, unless such pronouncements conflict with or contradict related GASB pronouncements. GMU has elected to continue to apply FASB pronouncements issued after November 30, 1989

The significant accounting policies of GMU are described below.

B. Reporting Entity -

General accepted accounting principles require GMU to consider if it has oversight responsibility or control over any other legal entity. Control or dependence is determined based on budget adoption, taxing authority, funding, or appointment of the respective governing board.

Greenfield Municipal Utilities is a component unit of the City of Greenfield, but is legally separate from the City, and has no component units itself. Accordingly, these financial statements include only the accounts of the water system. The financial activities of the electric system are presented and reported on separately.

C. Financial Statement Presentation -

Effective July 1, 2004, GMU was required to adopt GASB Statement No. 34 for the first time. This Statement creates new basic financial statements and terminology for reporting local government financial activities. For the water system, implementation of these new standards had no overall financial effect on the calculation of income before transfers and net assets (previously referred to as municipal equity).

However, these standards do require presenting net assets separately for amounts invested in capital assets, net of related debt associated with acquiring and carrying capital assets, restricted net assets and unrestricted net assets. Also, the determination of net operating income is changed by new definitions of operating revenue and operating expenses.

D. Measurement Focus and Basis of Accounting -

Measurement focus refers to what is measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The applicable generally accepted accounting principles are those similar to businesses in the private sector.

See Independent Auditors' Report.

The water system is a governmental proprietary enterprise fund and uses the economic resources measurement focus and the accrual basis of accounting. As such, the fund measurement objective is the determination of operating income, changes in net assets, financial position, and cash flows. Under the accrual basis of accounting, revenues are recognized when earned, except unbilled revenues for customer usage since the last meter reading to the end of the fiscal year (approximately five days) are not accrued. Expenses are recognized when the obligation is incurred.

E. Estimates -

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Equivalents -

GMU has defined cash and equivalents as unrestricted cash on hand, checking and savings accounts, and certificates of deposit with original maturities of three months or less. Cash and equivalents held as restricted assets are excluded for cash flows purposes.

G. Inventories-Materials and Supplies -

Inventories of materials and supplies are stated at the lower of cost or market using the first-in, first-out method.

H. Capital Assets -

Capital assets (property, plant and equipment including infrastructures) are valued at historical cost. The cost of system renewals and betterments includes engineering, project construction period interest and other related costs. Preliminary and construction costs of projects not yet in service, if any, are shown in the financial statements as construction in progress. Maintenance and repairs which do not add to the capacity or efficiency of the asset are charged to operating expense.

Depreciation is provided over the assets estimated useful lives using the straight line method with one-half year convention. No depreciation is taken on construction in progress. The range of estimated useful lives capital asset sub-categories is as follows:

Treatment Plant and Structures	15-50 Years
Transmission System Improvements	33-50 Years
Distribution System Improvements	20-40 Years
Vehicles	5 Years
Tools and Shop Equipment	5-10 Years
Furniture and Office Equipment	5-10 Years

I. Net Assets Classifications -

Net assets are shown in three components:

a. Invested in capital assets, net of related debt. Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of capital assets.

b. Restricted net assets. Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations; or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted net assets. All other net assets, included designated, that do not meet the definition of "restricted" or "invested in capital assets, net of related debt". Designated net assets, although earmarked by the Trustees, may be changed at any time by board action.

See Independent Auditors' Report.

Included in the unrestricted net assets is an amount of \$21,722 designated for the City's Park Board. When GMU transferred Between-Two-Lakes land to the City, the trustees specified the CRP income be retained for the benefit of park improvements.

J. Taxes -

GMU is not liable for federal and state income taxes or taxes on its property and no payments in-lieu-of taxes or other contributions are made to the city.

NOTE 2 - CASH AND POOLED INVESTMENTS

GMU pool their deposits and investments and maintain records as to the water system and electric system's share of the total balance. At June 30, 2004, the water system had borrowed \$ 39,470 from the electric system in that the water system share of the pooled checking account was in a deficit balance.

All deposits at June 30, 2004 were entirely covered by federal depository insurance, collateralized with securities or letters of credit held by the utility or the utility's agent in the utility's name, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

GMU is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit or savings accounts at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of drainage districts.

The investments are categorized to give an indication of the level of risk assumed by the utility at year end. The investments held as certificates of deposit are all category 1 which means that the investments are insured or registered or the securities are held by the water or electric system or its agent in the its name. The investment held by SIMECA for debt reserves are not in the name of the utility and is therefore a category 3 risk. All investments at June 30, 2004 were held as certificates of deposits and cost is the same as carrying value.

NOTE 3 - PROPERTY AND EQUIPMENT

Capital asset activity for the years ended June 30, 2004 and 2003 is as follows:

	2003	Balance July 1	Additions	Retirements	Balance June 30
Capital Assets not Being Depreciated -					
Construction in Progress		\$ -	\$ 227,500	\$ -	\$ 227,500
Capital Assets Being Depreciated -					
Production Plant		\$ 1,337,994	\$ -	\$ -	\$ 1,337,994
Transmission System		597,075	-	-	597,075
Distribution System		1,686,146	13,779	-	1,699,925
Vehicles, Tools and Equipment		155,777	-	-	155,777
Total Cost		<u>\$ 3,776,992</u>	<u>\$ 13,779</u>	<u>\$ -</u>	<u>\$ 3,790,771</u>
Accumulated Depreciation for -					
Production Plant		\$ 772,260	\$ 48,328	\$ -	\$ 820,588
Transmission System		332,391	8,672	-	341,063
Distribution System		1,211,638	33,051	-	1,244,689
Vehicles, Tools and Equipment		122,933	15,149	-	138,082
Total Accumulated Depreciation		<u>\$ 2,439,222</u>	<u>\$ 105,200</u>	<u>\$ -</u>	<u>\$ 2,544,422</u>

See Independent Auditors' Report.

2004	Balance July 1	Additions	Retirements	Balance June 30
Capital Assets not Being Depreciated - Construction in Progress	<u>\$ 227,500</u>	<u>\$ 565,336</u>	-	<u>\$ 792,836</u>
Capital Assets Being Depreciated -				
Production Plant	1,337,994	63,809	-	1,401,803
Transmission System	597,075	-	-	597,075
Distribution System	1,699,925	-	-	1,699,925
Vehicles, Tools and Equipment	<u>155,777</u>	<u>1,757</u>	<u>19,090</u>	<u>138,444</u>
Total Cost	<u>\$ 3,790,771</u>	<u>\$ 65,566</u>	<u>\$ 19,090</u>	<u>\$ 3,837,247</u>
Accumulated Depreciation for -				
Production Plant	\$ 820,588	\$ 50,455	\$ -	\$ 871,043
Transmission System	341,063	8,608	-	349,671
Distribution System	1,244,689	32,767	-	1,277,456
Vehicles, Tools and Equipment	<u>138,082</u>	<u>9,501</u>	<u>19,090</u>	<u>128,493</u>
Total Accumulated Depreciation	<u>\$ 2,544,422</u>	<u>\$ 101,331</u>	<u>\$ 19,090</u>	<u>\$ 2,626,663</u>

Depreciation expense by asset group charged to operations is as follows:

	2004	2003
Production Plant	\$ 50,455	\$ 48,328
Transmission System	8,608	8,672
Distribution System	32,767	33,051
Vehicles, Tools and Equipment	<u>9,501</u>	<u>15,149</u>
Totals	<u>\$ 101,331</u>	<u>\$ 105,200</u>

NOTE 4 - COMPENSATED ABSENCES

GMU employees accumulate a limited amount of vested, but unused, vacation and sick leave hours for subsequent use or payment upon termination, retirement or death. Accrued compensated absences included in the financial statements for 2004 and 2003 represent the amount due for the hours accumulated at the employees' June 30 rate of compensation.

NOTE 5 - NOTE PAYABLE

During 2004, The City of Greenfield issued a general obligation promissory note for \$200,000 dated June 10, 2004. The proceeds of this note were deposited to the water system and the water system is to repay this debt. The note is non-interest bearing, with monthly payments of \$1,666 beginning July 14, 2004.

See Independent Auditors' Report.

Current maturities of long-term debt for the years ended June 30:

2005	\$ 20,000
2006	20,000
2007	20,000
2008	20,000
2009	20,000
2010	20,000
2011	20,000
2012	20,000
2013	20,000
2014	20,000
Totals	<u>\$ 200,000</u>

NOTE 6 - CHANGES IN LONG-TERM DEBT

Changes in long-term debt for the years ended June 30, 2004 and 2003 are as follows:

2004	Balance July 1	Issues or Additions	Payments or Expenditure s	Balance June 30	Amounts Due Within One Year
2004 Promissory Note (CIPCO)	\$ -	\$ 200,000	\$ -	\$ 200,000	\$ 20,000

NOTE 7 - PENSION AND RETIREMENT BENEFITS

GMU contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the employer is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The water system's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 was \$ 9,378, \$9,845, and \$8,796, respectively, which met the required contributions for each year.

NOTE 8 - DEFERRED COMPENSATION PLAN

GMU offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits deferral to future years of a portion of their current salary. The employee becomes eligible to withdraw funds upon termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in a separate third-party trust for the exclusive benefit of participants and their beneficiaries.

NOTE 9 - RELATED PARTIES

The electric and water utilities had combined business transactions with GMU officials totaling \$41,160 in 2004 and \$51,494 in 2003. Information for just the water system is not available.

See Independent Auditors' Report.

NOTE 10 - CONCENTRATIONS

The water system provides water to customers in a specified service area in and around the City of Greenfield, Iowa. It grants credit to substantially all customers, all of whom are local businesses or residents.

Sales to other nonprofit or municipal organizations for redistribution accounted for approximately 20 and 15 percent of the total operating revenue for the years ended June 30, 2004 and 2003, respectively.

NOTE 11 - RISK MANAGEMENT

The Greenfield Municipal Utilities are exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks, except for loss of infrastructure, are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reflected in the balance sheets for cash and cash equivalents approximate the respective fair values due to the short maturities of those instruments. Management estimates that there are no significant differences between the fair value of financial instruments and the amounts shown as assets and liabilities on the balance sheets.

NOTE 13 - COMMITMENTS

The water utility is in the process of moving and constructing a new water tower. The utility has incurred costs associated with this project of \$792,836. The total estimated cost of the project is approximately \$820,000.

The water system has a contract to provide water to the Southern Iowa Rural Water Association over a forty-year period beginning June 1, 1982. The agreement stipulates that the water quantity sold is not to exceed 174 gallons per minute and 52,257,879 gallons per year. Metered water for 2004 and 2003 was 48,918,000 and 49,391,200 gallons, respectively.

The water system has a contract to provide water to the City of Fontanelle over a ten year period beginning November 1, 2003. The agreement stipulates that the water quantity sold is not to exceed 120 gallons per minute and 20,000,000 gallons per year. Metered water for 2004 was 9,630,400 gallons.

NOTE 14 - BUDGETS AND BUDGETARY ACCOUNTING

GMU prepares a budget on the basis of cash receipts and disbursements instead of the accrual basis of accounting presented in these financial statements. In accordance with the Code of Iowa, the City Council annually adopts a budget, which includes this water system, following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. There were no budget amendments adopted during the current year.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions or programs, not by fund. These functions are grouped as either governmental activities or business activities.

See Independent Auditors' Report.

The water system budget is included as a part of the City and GMU combined business type activities budget. A comparison of the actual water system activity, adjusted to the budgetary basis, and the total budgeted amounts is as follows:

	Actual	Budget
Operating and Nonoperating Revenue- GAAP Basis	\$ 816,322	
Adjust for -		
Customer Charge Accruals	(1,889)	
Other Operating Revenue Accruals	-	
Nonoperating Revenue Accruals	172	
Proceeds of Debt Issued	200,000	
Operating and Nonoperating Revenue- Budget Basis	<u>\$ 1,014,605</u>	<u>\$ 457,800</u>
	Actual	Budget
Operating and Nonoperating Expenses- GAAP Basis	\$ 521,992	
Adjust for -		
Operating Expenses for Accruals	(2,230)	
Nonoperating Expenses Accruals	-	
Capital Outlay	674,631	
Depreciation	(101,331)	
Debt Payment	-	
Operating and Nonoperating Expenses- Budget Basis	<u>\$1,093,062</u>	<u>\$ 525,250</u>
Budget Overspend		<u>\$ 567,812</u>

See Independent Auditors' Report.

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

SUPPLEMENTARY INFORMATION

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

**SCHEDULES OF EXPENSES
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	2004		2003 Restated		Increase (Decrease)
	Amount	Percent	Amount	Percent	
Plant Operations -					
Salaries and Wages	\$ 42,171	9.2	\$ 41,721	10.1	\$ 450
Employer Payroll Taxes	5,472	1.2	5,798	1.4	(326)
Group Insurance	8,961	1.9	6,986	1.7	1,975
Professional Fees	4,690	1.0	590	0.1	4,100
Insurance	9,036	2.0	8,823	2.1	213
Utilities and Communications	34,719	7.8	36,500	9.2	(1,781)
Chemicals	38,844	8.4	37,780	9.2	1,064
Water Testing	3,596	0.5	3,461	0.6	135
Total Plant Operations	<u>\$ 147,489</u>	<u>32.0</u>	<u>\$ 141,659</u>	<u>34.4</u>	<u>\$ 5,830</u>
Plant Maintenance -					
Pump Repairs	\$ 6,055	1.3	\$ 3,585	0.9	\$ 2,470
Supplies Operating and Maintenance	7,926	1.7	-	4.1	7,926
Repairs Maintenance Services	16,139	3.5	16,792	-	-
Total Plant Maintenance	<u>\$ 30,120</u>	<u>6.5</u>	<u>\$ 20,377</u>	<u>5.0</u>	<u>\$ 9,743</u>
Distribution Operations -					
Salaries and Wages	\$ 62,029	13.5	\$ 58,192	14.2	\$ 3,837
Employer Payroll Taxes	8,313	1.8	8,772	2.1	(459)
Group Insurance	13,442	2.9	10,479	2.5	2,963
Professional Fees	3,924	0.8	3,230	0.8	694
Total Distribution Operations	<u>\$ 87,708</u>	<u>19.0</u>	<u>\$ 80,673</u>	<u>19.6</u>	<u>\$ 7,035</u>
Distribution Maintenance -					
Vehicle Operating Expenses	\$ 5,498	1.2	\$ 5,533	1.3	\$ (35)
Supplies Operating and Maintenance	29,328	6.4	23,109	5.7	6,219
Total Distribution Maintenance	<u>\$ 34,826</u>	<u>7.6</u>	<u>\$ 28,642</u>	<u>7.0</u>	<u>\$ 6,184</u>
Accounting and Collecting -					
Salaries and Wages	\$ 24,916	5.4	\$ 24,083	5.9	\$ 833
Employer Payroll Taxes	-	-	2,394	0.6	(2,394)
Group Insurance	8,961	1.9	6,986	1.7	1,975
Advertising and Notices	1,371	0.3	1,595	0.4	(224)
Supplies Operating and Maintenance	3,306	0.7	3,867	0.9	(561)
Copier and Computer Maintenance	4,543	1.1	2,020	0.5	2,523
Total Accounting and Collecting	<u>\$ 43,097</u>	<u>9.4</u>	<u>\$ 40,945</u>	<u>10.0</u>	<u>\$ 2,152</u>

See Independent Auditors' Report.

(Continued)

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

**SCHEDULES OF EXPENSES
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	2004		2003 Restated		Increase (Decrease)
	Amount	Percent	Amount	Percent	
Administrative Expenses -					
Salaries and Wages	\$ 32,270	7.0	\$ 34,489	8.4	\$ (2,219)
Employer Payroll Taxes	12,166	2.6	8,658	2.1	3,508
Group Insurance	4,481	1.0	3,493	0.8	988
Professional Fees	6,367	1.4	7,997	1.9	(1,630)
Insurance	10,071	2.2	9,203	2.2	868
Travel, Conferences and Dues	4,788	1.0	3,905	0.9	883
Utilities and Communications	2,048	0.4	1,132	0.3	916
Supplies Operating and Maintenance	2,572	0.6	2,026	0.5	546
Economic Development	-	-	6,229	1.7	(6,229)
Total Administrative Expenses	<u>\$ 74,763</u>	<u>16.2</u>	<u>\$ 77,132</u>	<u>18.8</u>	<u>\$ (2,369)</u>
 Rebates and Refunds	 <u>\$ 2,658</u>	 <u>0.6</u>	 <u>\$ 655</u>	 <u>0.3</u>	 <u>\$ 2,003</u>

See Independent Auditors' Report.

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

**STATISTICAL REPORTS AND OTHER INFORMATION (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	2004		2003		Increase (Decrease)
	Gallons	Percent	Gallons	Percent	
WATER PUMPED TO SYSTEM	160,792,000	100.0	146,622,000	100.0	14,170,000
UNBILLED:					
Greenfield Municipal Utilities	8,384,200	4.8	7,023,800	4.8	1,360,400
Free Water	845,600	0.4	634,800	0.4	210,800
Streets (Estimated)	87,500		38,500		49,000
Fire Department and Flushes (Estimated)	193,525	0.4	519,570	0.4	(326,045)
Accounted for as Break Leaks (Estimated)	<u>522,460</u>	<u>0.8</u>	<u>1,135,000</u>	<u>0.8</u>	<u>(612,540)</u>
Total Unbilled	<u>10,033,285</u>	<u>6.4</u>	<u>9,351,670</u>	<u>6.4</u>	<u>681,615</u>
Available for Sale	150,758,715	93.6	137,270,330	93.6	13,488,385
WATER SOLD	129,551,630	80.0	113,287,880	80.0	16,263,750
Line Loss	<u>21,207,085</u>	<u>13.6</u>	<u>23,982,450</u>	<u>13.6</u>	<u>(2,775,365)</u>
METER COUNT AT JUNE 30	<u>1,036</u>		<u>1,046</u>		
WATER USAGE RATES:					
Customer Charges per Meter per Month -					
Residential	11.00		11.00		
Rural Residential	15.00		15.00		
Commercial	13.00		13.00		
Rural Commercial	17.00		17.00		
Industrial	100.00		75.00		
Water Usage (Per 1,000 Gallons)	3.00		3.00		
Effective	3/1/2004		3/1/2003		

See Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Greenfield Municipal Utilities
Water System
Greenfield, Iowa

We have audited the financial statements of the Water System, a department of the Greenfield Municipal Utilities, a component unit of the City of Greenfield, Iowa, as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated October 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Water System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which instance is a budget overspend.

Comments involving statutory and other legal matters about the Water System's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the Water System. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Water System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the trustees, officials, employees and citizens of the City of Greenfield, and other parties to whom the Greenfield Municipal Utilities may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

O'DONNELL, FICENEC, WILLS & FERDIG, LLP

October 26, 2004

By _____
Certified Public Accountant

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004**

PART 1: FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS:

INSTANCES OF NON-COMPLIANCE:

No matters noted.

REPORTABLE CONDITIONS:

No matters noted.

PART 2: OTHER FINDINGS RELATED TO STATUTORY REPORTING:

- 04-2A **Official Depositories** - Resolutions naming depositories for combined funds of the City and Library and Greenfield Municipal Utilities have been approved by the City Council and the Board of Trustees. The maximum deposit amounts stated in the resolutions were not exceeded during the year. Depositories named and related amount authorized are as follows:

First National Bank	\$ 4,000,000
Union State Bank	4,000,000

- 04-2B **Certified Budget** - Disbursements during the year ended June 30, 2004, exceed the amount budgeted for the water system by \$567,812. This overspend is applicable only to the water system, as a component unit of the City of Greenfield. The overspend was caused entirely by expenditures for construction of a new water tower. The project costs and approval of debt issuance, if needed, were approved at public hearings prior to commencement of the project.

Recommendation - The budget should be amended in accordance with Chapter 384.18 of the Code of Iowa before expenditures are allowed to exceed the budget.

Response - The overspend is considered by management to be appropriate because of the public approval of the water tower project. The nature of the expenditure is not for operations but rather a capital project.

Conclusion - Response Accepted.

- 04-2C **Questionable Disbursements** - We noted no expenditures that we believe would constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

- 04-2D **Travel Expense** - No expenditures of water system money for travel expenses of spouses of officials or employees were noted.

- 04-2E **Business Transactions** -

Name, Title and Business Connection	Transaction Description	Amount
Lynne Don Carlos, Utility Trustee Don Carlos Insurance	Insurance	\$ 51,494

The trustees specifically authorize by resolution all purchases from related officials' businesses. Trustee Lynne Don Carlos is the wife of the owner of Don Carlos Insurance and abstained from voting on actions regarding acquisition of insurance. It is the opinion of legal council for Greenfield Municipal Utilities that this transaction does not violate Chapter 362.5.

- 04-2F **Bond Coverage** - Surety bond coverage of officials and employees is in accordance with statutory provisions. However, we recommend the amount of coverage be reviewed annually to insure that the coverage is adequate for current operations. See the page listing the "Officials" for individual bond coverage amounts.
- 04-2G **Minutes** - No transactions were found that we believe should have been approved in the minutes, but were not. The minutes were published within the 15 days required by Chapter 372.13(6) of the Code of Iowa. We did note, however, total receipts were not included in the published minutes.
- 04-2H **Deposits and Investments** - The Board of Trustees adopted a written investment policy statement as required by Chapter 12B.10B of the Code of Iowa and no instances of noncompliance were noted.